

City of Detroit


CITY COUNCIL

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ANNE MARIE LANGAN
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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director 

DATE: October 5, 2009

RE: Resolution Authorizing Applications to Extend Tax Exemption Benefits of the Renaissance Zone in accordance with PA 376 of 1996; as amended by PA 440 of 2006 and PA 116 of 2008 (**Recommend Approval**)

Introduction

Under renaissance zone legislation PA 376 of 1996, as amended by PA 116 of 2008, representatives from the Detroit Economic Growth Corporation (DEGC) and the Planning and Development Department (PDD) request the extension of renaissance zone tax exemption benefits for one company located in the Lynch Road renaissance zone: Detroit Chassis, LLC and affiliate Detroit Custom Chassis, LLC; and for two companies located in the Livernois/Intervale renaissance zone: Pioneer Steel and Detroit Chrome, Inc. a/k/a DCI Aerotech.

I appreciate the detailed responses to my many questions on the extension requests. Malinda Jensen, director of business attraction for the DEGC, delivered a copy of the responses to your Honorable Body on Thursday, October 1st.

Impact of PA 116 of 2008

PA 116 amended the original renaissance zone legislation PA 376 of 1996 to provide the following:

- Through December 31, 2011, allows a qualified local unit, such as the City of Detroit, to apply to extend the duration of a renaissance zone regardless of whether it had not experienced significant development;
- Apply for an extension of a zone for one or more portions of it (i.e., on per project basis);
- The zone must have been in existence as of March 15, 2008;
- The extension must increase either capital investment or job creation in the zone, or portion of it;
- The application for extension must be approved by the Wayne County Executive and the board of the Michigan Strategic Fund;

- The board of the Michigan Strategic Fund may extend the renaissance zone tax exemption benefits for one or more portions of the zone for up to 15 years from the date of the application to the board;
- If the board of the Michigan Strategic Fund approves the application to extend a zone or portion of it, the board will enter into a written development agreement with the owner of all real property located within the zone or portion of it whose duration has been extended;
- The board of the Michigan Strategic Fund may revoke the extension if the board determines that the increased capital investment or job creation will not begin within one year of the granting of the extension, or, otherwise violates the terms of the written agreement between the owner of real property and the board.

Although Council does not have to approve the written agreement, a draft copy was provided to you in the packet of responses to my questions. According to PA 116, the written agreement must include, but not limited to, the following: a) duration of the extension; b) the conditions under which the extension is granted; c) the amount of capital investment; d) the number of jobs to be created; and e) any other conditions or requirements reasonably required by the board of the Michigan Strategic Fund.

Council should note that the Lynch Road and Livernois/Intervale renaissance zones expired on December 31, 2008. However, it is appropriate to request for extension of these zones since they were in existence as of March 15, 2008, according to PA 116. For your information, the Packard and Central City renaissance zones also expired on December 31, 2008, but apparently, companies located in these zones had gone out of business, or had real and personal property that fully depreciated, or were ineligible to apply for the extension. Under PA 376 of 1996, a company must be current on all tax liabilities to be able to apply.

Council should also note that 22 companies applied for renaissance zone extensions, of which 14 were eligible and 9 were located in the Southwest/Delray zone. The Southwest/Delray zone expires on December 31, 2011. DEGC representatives focused first on the eligible companies located in the zones that expired on December 31, 2008. It is my understanding that the DEGC representatives are still reviewing zone extension requests and will soon be working on a "round 2" to assist eligible businesses to extend renaissance zone benefits.

Approval Process

The DEGC/PDD representatives would like for your Honorable Body to act on a resolution authorizing the applications to extend the renaissance zone tax exemption benefits on Tuesday, October 6, 2009 in order for the resolution and applications to get to the board of the Michigan Strategic Fund as soon as possible to give the board a chance to approve the applications by October 12, 2009 in time to get the tax exemption information to the State Tax Commission in order for the exemptions to start in year 2010.

Council should note that Wayne County Executive Robert Ficano is currently reviewing the renaissance zone extension applications. If he approves them, the resolutions/applications will be forwarded to the Wayne County Board of Commissioners for review and approval on or before October 12, 2009.

Brief Description of Lynch Road and Livernois/Intervale Renaissance Zones

In late 1996, your Honorable Body approved the creation of the following renaissance zones: Lynch Road, I-94 Industrial Park, Southwest/Delray, Livernois/Intervale, Old Packard Site and Central City. The zones became effective January 1, 1997.

The primary purpose of the zones were to use the exemption of state and local taxes to attract businesses to these highly industrial areas containing large parcels of vacant and underutilized land and encourage investment and job creation. The areas that contained residents had high poverty rates, low wage earners and low educational levels, according to the 1990 census.

The Lynch Road renaissance zone is bound by Lynch Road, Van Dyke, Forest Lawn Cemetery and the Grand Trunk Railroad, and it contains 116.2 acres. The site is zoned two family residential, general business and intensive industrial. The proposed development concept in 1996 was heavy, medium and light industrial for the zone.

The Livernois/Intervale renaissance zone is bound by Lyndon Road, Intervale Street, Cloverdale Street and Livernois Avenue, and it contains 72.9 acres. The site is zoned intensive industrial. The proposed development concept in 1996 was light industry and light industry distribution/warehouse.

For Council's information, before December 31, 2008, there were 17 renaissance zones in the City of Detroit, with 4 of them representing Wayne County zones. As of to date, there are now only 9 active zones in the City since 4 of them expired on December 31, 2008, along with the 4 Wayne County active zones, 13 in total. A list of the zones and their expiration dates, status and zone type is in the packet of responses from the DEGC.

Renaissance Zone Tax Exemption Benefits

Renaissance zone extension will apply to all new and existing real and personal property associated with the parcels identified in the application. Companies located in a renaissance zone do not have to pay:

1. Michigan Business Tax
2. Michigan personal income tax (if a resident of the zone)
3. Michigan's 6-mill State education tax
4. Local personal property tax
5. Local real property tax

6. Local income tax (if a resident of the zone)
7. Utility users tax

Taxes mandated by the Federal government, local bond obligations, school sinking fund or special assessments are still due. Companies/residents are not exempt from paying Michigan sales and use tax and must be current with all state and local taxes in order to be eligible for benefits under the program.

The State of Michigan reimburses lost tax revenue to intermediate school districts, local school districts, community college districts and public libraries where taxes are abated.

General Rationale for the Renaissance Zone Extensions

The current economic climate and market changes in the metro-Detroit region has caused many businesses in Detroit to reduce investment, reduce staff, and some cases, close their doors, thereby reducing local tax revenue.

Detroit Chassis/Detroit Custom Chassis, Pioneer Steel and DCI Aerotech have made significant investments in their original renaissance zones, and will continue to do so if the zone can be extended. Some of these companies may close if an extension is not granted, which would result in further job loss to the City of Detroit and Wayne County.

In order to retain and create additional jobs and increase capital investment in the Lynch Road and Livernois/Intervale renaissance zones, it appears it is in the best interest of the City of Detroit to consider extending the tax exemption benefits in these zones.

Specific Analysis of the Individual Renaissance Zone Extension Requests

Detroit Chassis, LLC/Detroit Custom Chassis, LLC

Background of Company

Detroit Chassis opened operations in the Lynch Road renaissance zone in 1998. The plant is located at 6501 Lynch Road and encompasses 218,000 square feet on 33 acres. It is capable of turning out as many as 90,000 rolling chassis per year on its highly flexible production line. Detroit Chassis does chassis assembly of Recreational Vehicles (RV) and commercial truck chassis for Ford Motor Company. Its core business is to assemble rolling chassis and niche vehicles as contract assembler for Ford. The original 10-year contract with Ford Motor Company ends on December 31, 2009 and Detroit Chassis has entered negotiations for an extension or renewal. This chassis was originally assembled in Mexico and was resourced to Detroit Chassis by Ford Motor Company in 1998.

Detroit Custom Chassis does chassis conversions and non-Ford assembly. The company's principal product is a proprietary low floor chassis conversion used for transit

and shuttle bus limited mobility applications. Detroit Custom Chassis has a long-term contract with Dallas Smith Corporation.

The Detroit Chassis companies initially spent \$10 million plus \$1.25 million in annual purchases to date, totaling \$12.25 million over the last 10 years since when the Lynch Road renaissance zone was in existence.

Rationale for Renaissance Zone Extension Request

Detroit Chassis/Detroit Custom Chassis requests a 15-year extension of the renaissance zone tax exemption benefits. From 1998 to 2002, Ford chassis and other chassis products grew, and full-time employment increased 31% to reach a peak level of 300 employees. However, in 2003 due to market conditions, employment levels dramatically reduced by over 70%, and in early 2009, Detroit Chassis reduced its workforce to 80 employees.

In spite of these challenges, Detroit Chassis is committed to re-growing the company and has rehired 25 employees as of July 2009. Taxation relief from renewal of the renaissance zone would permit Detroit Chassis to meet Ford's aggressive cost reduction targets, retain current production, launch new products, and remain economically viable.

Cost/benefit Analysis

Capital investment anticipated

On behalf of Ford, Detroit Chassis looks to invest \$600,000 to fund the engineering, facilities and tooling costs for the redesign of the current recreational vehicle F53 RV chassis so that a modified version can be sold into the commercial parcel delivery van market.

Detroit Custom Chassis looks to invest \$1.2 million to launch the assembly of new proprietary low floor paratransit and shuttle bus chassis cabs, and hope to ship orders to companies in Hawaii, Ohio and Toronto, Ontario.

In addition, Detroit Custom Chassis looks to invest \$1 million to develop a fuel- efficient hybrid version of the low floor bus for mid-sized para-transit and shuttle bus applications.

Total investment anticipated is \$2.8 million.

Number of new jobs anticipated

Detroit Chassis/Detroit Custom Chassis expect to increase employment by up to 130% of the current employment level of 80 employees. Anticipated job creation is 70-80 new hourly positions and 24 salaried positions. Average salary is \$40,000.

The Detroit Chassis companies currently have 54 Detroiters and 34 women on payroll. The companies are committed to hiring more Detroiters. The companies are also willing

to work with the Detroit Workforce Development Department to assist Detroiters to receive the necessary training to find jobs at the companies.

Taxes

Detroit Chassis companies are estimated to pay total taxes (real and personal property taxes and income taxes from current and new employees) without incentives amounting to \$475,030 per year over the life of the renaissance zone. Due to the renaissance zone incentives, total taxes forgiven per year amounts to \$210,764. The total taxes the companies still to pay with incentives are \$264,266 per year. This means that the City and other taxing jurisdictions would still receive about 56% of total taxes owed without incentives.

Training programs and community involvement

Detroit Chassis companies provide internal training programs for its employees.

The companies actively support several local community and charitable organizations, including the Children's Aid Society of Michigan, Junior Achievement, Davis Aerospace and Technical High School, the National Association of Black Automotive Suppliers Scholarship Fund and others.

Spending levels on goods and services and minority businesses in Detroit

Approximately 70% of the Detroit Chassis companies' purchased products and services other than utilities are from minority vendors.

Pioneer Steel Corporation

Background of Company

Pioneer Steel Corporation is located at 7447 Intervale and has operated in the City of Detroit since 1982 as a steel service center providing products to a variety of automotive and non-automotive businesses in Southeast Michigan as well as nation wide. The company specializes in steel plate and steel plate burnouts, extensive plate inventory through 23" thickness, die sets and die components. In addition to the steel plant in Detroit, Pioneer Steel operates a steel facility in Grand Rapids, Michigan and one in Nashville, Tennessee.

The Pioneer Steel Detroit location invested in \$1.2 million in building improvements during the course of the Livernois/Intervale renaissance zone.

Rationale for Renaissance Zone Extension Request

Pioneer Steel initially requested for a 15-year renaissance zone extension, but the DEGC/PDD representatives suggest only a 10-year extension, given that the company only wants to invest \$200,000 in the next five years.

Many of the other industrial companies in the Livernois/Intervale renaissance zone have closed operations during this economic downturn in Southeast, Michigan. If Pioneer Steel is unable to receive an extension on the zone tax exemption benefits, it too may have to shutdown the Detroit location and consolidate its steel operations at the Grand Rapids location.

Pioneer Steel expects the tax savings from the extended renaissance zone to allow it to maximize employment in the Detroit facility during the economic downturn, and be prepared to make additional investments in equipment and add staffing at the end of the downturn and remain a viable business in the City.

Cost/benefit Analysis

Capital investment anticipated

Pioneer Steel looks to invest \$200,000 in tangible personal property to add either water jet or laser cutting capabilities as well as extend the company's present plasma arc cutting operation. These improvements would hopefully allow Pioneer Steel to serve a wider customer base and grow the company.

Number of new jobs anticipated

Pioneer Steel plans to expand employment by 20% of current employment level of 34. The company anticipates adding 7 skilled positions, with an average annual salary of \$41,700.

Pioneer Steel has 2 Detroiters and 5 women currently on payroll. The company is committed to working with the Detroit Workforce Development Department as an option to help fill future job openings.

Taxes

Pioneer Steel is estimated to pay total taxes (real and personal property taxes and income taxes from current and new employees) without incentives amounting to \$57,908 per year over the life of the renaissance zone. Due to the renaissance zone incentives, total taxes forgiven per year amounts to \$24,961. The total taxes the company still to pay with incentives is \$32,947 per year. This means that the City and other taxing jurisdictions would still receive about 57% of total taxes owed without incentives.

Training programs and community involvement

Pioneer Steel provides in-house training. The company is an active member of the Detroit Regional Chamber of Commerce and participates in the real life 101-scholarship program.

Spending levels on goods and services and minority businesses in Detroit

Pioneer Steel does not maintain records per location; but does support other Detroit based businesses, and will continue to do so.

Detroit Chrome a/k/a DCI Aerotech

Background of Company

DCI Aerotech established its business in Detroit on October 15, 1981 and is located at 7515 Lyndon. DCI Aerotech is a processor of aerospace parts used in aircraft and military vehicles. The company provides over 35 different metal finishing and industrial plating services.

DCI Aerotech invested over \$1.47 million over the last 10 years in the Livernois/Intervale renaissance zone.

Rationale for Renaissance Zone Extension Request

DCI Aerotech plans on making a significant investment, up to \$12.5 million over the next 5 years at its plant in the Livernois/Intervale renaissance zone. This project would help to diversify the local business climate and create job opportunities as DCI Aerotech is focused on developing technologies dedicated to the aerospace industry.

Cost/benefit Analysis

Capital investment anticipated

DCI Aerotech looks to invest \$10.13 million in building renovations, machinery and equipment, computers, special tooling and other equipment.

Number of new jobs anticipated

DCI Aerotech plans to expand employment by up to 68% of current employment level of 44. The company anticipates adding 20 to 30 hourly positions, with an average annual salary of \$32,500.

DCI Aerotech has 3 Detroiters and 6 women currently on payroll. The company is committed to working with the Detroit Workforce Development Department as an option to help fill future job openings.

Taxes

DCI Aerotech is estimated to pay total taxes (real and personal property taxes and income taxes from current and new employees) without incentives amounting to \$141,594 per year over the life of the renaissance zone. Due to the renaissance zone incentives, total taxes forgiven per year amounts to \$80,299. The total taxes the company still to pay with incentives is \$61,295 per year. This means that the City and other taxing jurisdictions still receive about 43% of total taxes owed without incentives.

Training programs and community involvement

DCI Aerotech provides in-house training. Training is not only a requirement of DCI Aerotech's quality certifications (which are regulated by the Federal Aviation Administration and the National Aerospace and Defense Contractors Accreditation Program) but also a necessary investment to remain competitive.

DCI Aerotech is a C-Corporation and does not run its charitable deductions through the company but on an individual basis. The company takes great pride in being a good corporate citizen to surrounding businesses and residents.

Spending levels on goods and services and minority businesses in Detroit

DCI Aerotech has committed to spend 21% of its supplier spending to Detroit-based companies in 2009.

Conclusion

The current downturn in the local economy has negatively impacted the business operations of Detroit Chassis, Pioneer Steel and DCI Aerotech. However, it appears it is in the best interest of the City of Detroit if the renaissance zone tax exemption benefits associated with these companies were extended.

If the Lynch Road and Livernois/Intervale zones are extended, then it is anticipated that these companies would increase capital investment by up to \$13.13 million, and create up to 117 in new jobs to the current job base of 158.

As a result, the City of Detroit and other taxing jurisdictions would receive approximately \$358,500 annually in property and income taxes even with the tax incentives offered by the renaissance zone legislation. This means that the City and other taxing jurisdictions would still receive about 53% of the total property and income taxes without tax incentives. This is a decent return when considering the taxing jurisdictions would forgo \$316,000 due to the tax incentives to support the new level of investment and jobs.

Recommendation

Based on the above analysis, I recommend that your Honorable Body approve the resolution to apply for a 15-year renaissance zone extension for Detroit Chassis, LLC; a 10-year renaissance zone extension for Pioneer Steel, Inc.; and a 15-year renaissance zone extension for Detroit Chrome, Inc. a/k/a DCI Aerotech.

cc: Council Divisions
Auditor General's Office
George Jackson, President-Detroit Economic Growth Corporation/Group Executive
Malinda Jensen, Director of Business Development-DEGC
Kenyetta Bridges, Manager Business Retention-DEGC
Warren Palmer, Planning and Development Department
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